

**BOYS AND GIRLS CLUBS  
OF THE MIDLANDS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**  
**(WITH INDEPENDENT AUDITOR'S REPORT)**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Boys and Girls Clubs of the Midlands  
Omaha, Nebraska:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Boys and Girls Clubs of the Midlands (the Club), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of the Midlands as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, on our consideration of Boys and Girls Clubs of the Midlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Club's internal control over financial reporting and compliance.

May 30, 2018

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### STATEMENTS OF FINANCIAL POSITION

<b>DECEMBER 31</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash	\$ 2,056,279	1,838,578
Investments (Notes 2, 5 and 10)	19,971,902	11,900,942
<b>Receivables</b>		
United Way of the Midlands	357,600	357,600
Grants	161,282	142,207
Contributions and other	97,358	69,917
Capital campaign pledges (Note 3)	8,772,855	3,237,611
<b>Total receivables</b>	<b>9,389,095</b>	<b>3,807,335</b>
Land, buildings and equipment, net (Note 6)	8,060,547	8,120,424
Intangible assets, net (Note 7)	3,142,834	2,232,056
<b>TOTAL ASSETS</b>	<b>\$ 42,620,657</b>	<b>27,899,335</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 325,934	367,175
Funds held for others	52,841	91,707
Deferred revenue	474,176	362,313
Deferred insurance proceeds	133,158	133,158
Capital lease obligations (Note 15)	348,161	35,990
<b>Total liabilities</b>	<b>1,334,270</b>	<b>990,343</b>
<b>Net assets (Note 9)</b>		
Unrestricted - undesignated	12,192,309	11,733,486
Unrestricted - board-designated endowment	5,972,343	4,654,424
<b>Total unrestricted</b>	<b>18,164,652</b>	<b>16,387,910</b>
Temporarily restricted	22,615,285	10,014,632
Permanently restricted	506,450	506,450
<b>Total net assets</b>	<b>41,286,387</b>	<b>26,908,992</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 42,620,657</b>	<b>27,899,335</b>

See accompanying notes to financial statements.

**BOYS AND GIRLS CLUBS OF THE MIDLANDS****STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues, gains and other support</b>				
Contributions	\$ 2,441,630	74,850	---	2,516,480
Capital campaign contributions	---	13,081,963	---	13,081,963
Allocated by United Way of the Midlands	---	715,200	---	715,200
Designations from United Way of the Midlands	25,675	---	---	25,675
Non-cash contributions	422,662	---	---	422,662
Membership dues, fees, and incidental charges	359,836	---	---	359,836
Investment income (Note 5)	831,154	973,392	---	1,804,546
Special events and fundraising	724,241	---	---	724,241
Rental and miscellaneous	19,647	---	---	19,647
Grants - Indirect federal	904,030	---	---	904,030
Grants - Other	2,335,234	---	---	2,335,234
Net assets released from restrictions (Note 9)	2,244,752	( 2,244,752)	---	---
<b>Total revenues, gains and other support</b>	<b>10,308,861</b>	<b>12,600,653</b>	<b>---</b>	<b>22,909,514</b>
<b>Functional expenses</b>				
<b>Program services</b>				
Basic needs	2,535,476	---	---	2,535,476
Ready to learn	4,523,089	---	---	4,523,089
Ready to work	196,241	---	---	196,241
<b>Total program services</b>	<b>7,254,806</b>	<b>---</b>	<b>---</b>	<b>7,254,806</b>
<b>Supporting services</b>				
Management and general	661,546	---	---	661,546
Fundraising	615,767	---	---	615,767
<b>Total supporting services</b>	<b>1,277,313</b>	<b>---</b>	<b>---</b>	<b>1,277,313</b>
<b>Total functional expenses</b>	<b>8,532,119</b>	<b>---</b>	<b>---</b>	<b>8,532,119</b>
<b>INCREASE IN NET ASSETS</b>	<b>1,776,742</b>	<b>12,600,653</b>	<b>---</b>	<b>14,377,395</b>
Net assets at beginning of year	16,387,910	10,014,632	506,450	26,908,992
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 18,164,652</b>	<b>22,615,285</b>	<b>506,450</b>	<b>41,286,387</b>

See accompanying notes to financial statements.

**BOYS AND GIRLS CLUBS OF THE MIDLANDS****STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues, gains and other support</b>				
Contributions	\$ 1,647,536	4,059,204	---	5,706,740
Capital campaign contributions	---	4,569,534	---	4,569,534
Allocated by United Way of the Midlands	---	715,200	---	715,200
Designations from United Way of the Midlands	15,282	---	---	15,282
Non-cash contributions	462,028	---	---	462,028
Membership dues, fees, and incidental charges	357,621	---	---	357,621
Investment income (Note 5)	392,666	607,964	---	1,000,630
Special events and fundraising	734,042	---	---	734,042
Rental and miscellaneous	19,653	---	---	19,653
Grants - Indirect federal	847,175	---	---	847,175
Grants - Other	2,455,858	---	---	2,455,858
Net assets released from restrictions (Note 9)	2,747,655	( 2,747,655)	---	---
<b>Total revenues, gains and other support</b>	<b>9,679,516</b>	<b>7,204,247</b>	<b>---</b>	<b>16,883,763</b>
<b>Functional expenses</b>				
<b>Program services</b>				
Basic needs	2,501,557	---	---	2,501,557
Ready to learn	4,396,282	---	---	4,396,282
Ready to work	157,857	---	---	157,857
<b>Total program services</b>	<b>7,055,696</b>	<b>---</b>	<b>---</b>	<b>7,055,696</b>
<b>Supporting services</b>				
Management and general	625,901	---	---	625,901
Fundraising	494,821	---	---	494,821
<b>Total supporting services</b>	<b>1,120,722</b>	<b>---</b>	<b>---</b>	<b>1,120,722</b>
<b>Total functional expenses</b>	<b>8,176,418</b>	<b>---</b>	<b>---</b>	<b>8,176,418</b>
<b>INCREASE IN NET ASSETS</b>	<b>1,503,098</b>	<b>7,204,247</b>	<b>---</b>	<b>8,707,345</b>
Net assets at beginning of year	14,884,812	2,810,385	506,450	18,201,647
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 16,387,910</b>	<b>10,014,632</b>	<b>506,450</b>	<b>26,908,992</b>

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fundraising	Total	
Salaries	\$ 951,632	2,448,536	133,442	3,533,610	246,758	449,671	696,429	4,230,039
Employee benefits	133,186	307,527	10,629	451,342	44,657	58,761	103,418	554,760
Payroll taxes	88,049	227,360	12,386	327,795	23,884	38,537	62,421	390,216
<b>Total employee compensation</b>	<b>1,172,867</b>	<b>2,983,423</b>	<b>156,457</b>	<b>4,312,747</b>	<b>315,299</b>	<b>546,969</b>	<b>862,268</b>	<b>5,175,015</b>
Specific assistance to individuals	332,656	30,664	4,398	367,718	---	---	---	367,718
Professional fees and contract service payments	44,154	92,580	19,484	156,218	196,704	12,075	208,779	364,997
Awards and grants	6,825	166,231	1,539	174,595	5,838	1,690	7,528	182,123
Supplies	44,826	203,046	4,628	252,500	20,640	11,779	32,419	284,919
Telephone	8,846	22,753	726	32,325	16,595	3,187	19,782	52,107
Postage	222	309	---	531	866	1,838	2,704	3,235
Occupancy	389,307	342,579	---	731,886	23,704	---	23,704	755,590
Printing	2,368	7,000	---	9,368	6,694	22,642	29,336	38,704
Student transportation and meetings	115,878	215,941	7,432	339,251	3,582	8,805	12,387	351,638
Conferences, conventions, meetings, and major trips	16,845	9,300	279	26,424	1,196	2,791	3,987	30,411
Rental and maintenance	17,626	18,963	355	36,944	9,649	1,414	11,063	48,007
Organizational dues	---	---	---	---	5,004	140	5,144	5,144
Equipment	13,934	101,206	853	115,993	11,786	2,197	13,983	129,976
National dues	---	---	---	---	20,919	---	20,919	20,919
Interest	1,112	3,725	90	4,927	2,182	240	2,422	7,349
<b>Expenses before depreciation</b>	<b>2,167,466</b>	<b>4,197,720</b>	<b>196,241</b>	<b>6,561,427</b>	<b>640,658</b>	<b>615,767</b>	<b>1,256,425</b>	<b>7,817,852</b>
Depreciation and amortization	368,010	325,369	---	693,379	20,888	---	20,888	714,267
<b>Total expenses</b>	<b>\$ 2,535,476</b>	<b>4,523,089</b>	<b>196,241</b>	<b>7,254,806</b>	<b>661,546</b>	<b>615,767</b>	<b>1,277,313</b>	<b>8,532,119</b>

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fundraising	Total	
Salaries	\$ 935,407	2,455,110	109,460	3,499,977	257,147	359,258	616,405	4,116,382
Employee benefits	122,239	284,216	9,293	415,748	37,624	55,781	93,405	509,153
Payroll taxes	79,713	207,177	11,370	298,260	21,913	30,615	52,528	350,788
<b>Total employee compensation</b>	<b>1,137,359</b>	<b>2,946,503</b>	<b>130,123</b>	<b>4,213,985</b>	<b>316,684</b>	<b>445,654</b>	<b>762,338</b>	<b>4,976,323</b>
Specific assistance to individuals	327,644	22,163	1,167	350,974	---	---	---	350,974
Professional fees and contract service payments	41,783	75,705	16,561	134,049	177,125	10,109	187,234	321,283
Awards and grants	11,923	170,352	3,725	186,000	4,295	524	4,819	190,819
Supplies	41,595	204,962	3,129	249,686	14,367	8,466	22,833	272,519
Telephone	8,223	22,331	628	31,182	16,096	2,363	18,459	49,641
Postage	368	604	---	972	538	3,045	3,583	4,555
Occupancy	423,530	369,766	---	793,296	25,694	---	25,694	818,990
Printing	3,443	5,208	---	8,651	8,021	12,610	20,631	29,282
Student transportation and meetings	89,187	202,075	1,717	292,979	2,861	3,719	6,580	299,559
Conferences, conventions, meetings, and major trips	17,522	19,995	31	37,548	331	5,901	6,232	43,780
Rental and maintenance	28,718	32,239	665	61,622	11,486	927	12,413	74,035
Organizational dues	---	---	---	---	5,484	1,135	6,619	6,619
Equipment	1,676	6,024	57	7,757	1,249	152	1,401	9,158
National dues	---	---	---	---	19,008	---	19,008	19,008
Interest	865	2,921	54	3,840	2,090	216	2,306	6,146
<b>Expenses before depreciation</b>	<b>2,133,836</b>	<b>4,080,848</b>	<b>157,857</b>	<b>6,372,541</b>	<b>605,329</b>	<b>494,821</b>	<b>1,100,150</b>	<b>7,472,691</b>
Depreciation and amortization	367,721	315,434	---	683,155	20,572	---	20,572	703,727
<b>Total expenses</b>	<b>\$ 2,501,557</b>	<b>4,396,282</b>	<b>157,857</b>	<b>7,055,696</b>	<b>625,901</b>	<b>494,821</b>	<b>1,120,722</b>	<b>8,176,418</b>

See accompanying notes to financial statements.



## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### STATEMENTS OF CASH FLOWS

<b>YEARS ENDED DECEMBER 31</b>	<b>2017</b>	<b>2016</b>
<b>Increases (decreases) in cash</b>		
<b>Cash flows from operating activities:</b>		
Received directly or indirectly from the public	\$ 6,703,031	5,717,172
Received directly or indirectly from government agencies	887,809	841,568
Interest and dividends received	196,080	190,039
Interest paid	( 7,349)	( 6,146)
Paid to suppliers and employees	( 7,467,948)	( 6,957,954)
<b>Net cash provided (used) by operating activities</b>	<b>311,623</b>	<b>( 215,321)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of building and equipment	( 185,707)	( 582,079)
Payments for use agreement	( 1,012,500)	( 1,120,000)
Purchase of investments	( 14,689,044)	( 13,214,074)
Proceeds from sale of investments	8,226,550	9,539,678
<b>Net cash used by investing activities</b>	<b>( 7,660,701)</b>	<b>( 5,376,475)</b>
<b>Cash flows from financing activities:</b>		
Contributions restricted for building and equipment	7,546,719	1,331,923
Contributions restricted for scholarships	74,850	3,949,728
Payments on capital lease obligation	( 54,790)	( 57,942)
<b>Net cash provided by financing activities</b>	<b>7,566,779</b>	<b>5,223,709</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>217,701</b>	<b>( 368,087)</b>
Cash at beginning of year	1,838,578	2,206,665
<b>Cash at end of year</b>	<b>\$ 2,056,279</b>	<b>1,838,578</b>
<b>Non-cash investing and financing activity:</b>		
Equipment acquired by capital lease	\$ 366,961	---

See accompanying notes to financial statements.

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**STATEMENTS OF CASH FLOWS - CONTINUED**

<b>YEARS ENDED DECEMBER 31</b>	<b>2017</b>	<b>2016</b>
<b>Reconciliation of cash flows from operating activities</b>		
Increase in net assets	\$ 14,377,395	8,707,345
<b>Adjustments</b>		
Depreciation and amortization	714,267	703,727
Net realized and unrealized gain on marketable securities	( 1,608,466)	( 810,591)
Contributions restricted for building and equipment	( 13,081,963)	( 4,569,534)
Contributions restricted for scholarships	( 74,850)	( 3,949,728)
<b>(Increase) decrease in operating assets</b>		
Receivables:		
United Way of the Midlands	---	36,000
Grants	( 19,075)	( 2,590)
Contributions and other	( 27,441)	173,386
Other	---	18,000
<b>Increase (decrease) in operating liabilities</b>		
Accounts payable and accrued expenses	( 41,241)	130,946
Funds held for others	( 38,866)	( 89,856)
Deferred revenue	111,863	( 549,899)
Deferred insurance proceeds	---	( 12,527)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 311,623</b>	<b>( 215,321)</b>

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See accompanying notes to financial statements.

## **BOYS AND GIRLS CLUBS OF THE MIDLANDS**

### **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

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Boys and Girls Clubs of the Midlands (the Club) provides youth development programs and opportunities as Boys and Girls Clubs of Omaha, Boys and Girls Clubs of Carter Lake and Boys and Girls Clubs of Council Bluffs.

The Club is a not-for-profit organization established to inspire and enable all young people, especially those who need us most, to realize their full potential as productive, responsible, healthy and caring citizens.

The Club provides programs in three core areas:

- Basic needs – Food. Shelter. Healthcare. Safety. These are some of life’s most basic needs. Without resources to meet them, young people struggle to survive, let alone succeed. The Club provides programs that help the most vulnerable members of our community who struggle to secure these basic services. Addressing basic needs will always be a key part of our mission.
- Ready to learn – Remove the barriers that local children face in learning, and help them build skills that lead to school success.
- Ready to work – Collaborate with other community organizations to provide young adults with a choice of high-quality paths to train for and join the workforce.

#### **1. Summary of Significant Accounting and Reporting Policies**

##### **A. Basis of Presentation**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and specifically with Accounting Standards Codification (ASC) section 958, Not-for-Profit Entities, issued by the Financial Accounting Standards Board (FASB). Accordingly, net assets are classified as unrestricted, temporarily restricted and permanently restricted, defined as follows:

The use of unrestricted net assets is not limited by donor-imposed stipulations and are, therefore, available for general operations.

Temporarily restricted net assets result from contributions and revenues the use of which is limited by donor- or grant-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Club pursuant to those stipulations.

Permanently restricted net assets result from contributions and revenues the use of which is limited by stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Club.

##### **B. Estimates and Assumptions**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Because of the inherent uncertainties in this process, it is likely that actual results will vary from the estimates.

The Club invests in securities exposed to interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets.

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**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**DECEMBER 31, 2017 AND 2016**

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**1. Summary of Significant Accounting and Reporting Policies - Continued**

C. Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in the fair value of investments are reported in the statement of activities. Dividends and interest are recognized as earned.

D. Land, Buildings and Equipment

Land, buildings and equipment are reported at cost or the fair value of donated items at the time of donation. Assets with a cost exceeding \$2,000 and an estimated Club life of more than one year are capitalized. Depreciation is computed by the straight-line method over estimated useful lives.

E. Contributions

Contributions are recognized as revenue when an unconditional promise to give is received from a donor. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met.

The Club recognizes contributions as restricted support if they are subject to donor stipulations that limit the use of the donated assets. When donor restrictions are satisfied, temporarily restricted assets are reclassified to unrestricted and reported in the statement of activities as "net assets released from restrictions". Contributions received with donor-imposed restrictions that are satisfied in the same year the contribution is received are reported as temporarily restricted revenues and released from restriction in the same period.

Non-cash contributions are reported at fair value on the date received.

F. Grant Revenue

Grant revenue and related receivables are recognized in accordance with the terms of the grants, and are considered fully collectible by Club management.

G. Contributed Services

Volunteers contributed approximately 7,900 and 7,800 hours of services to the Club in 2017 and 2016, respectively. The value of such services is not reported, as these services do not require specialized skills.

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Continued

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### **1. Summary of Significant Accounting and Reporting Policies - Continued**

##### H. Income Taxes

The Club is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no taxes are included in these financial statements.

Accounting standards require disclosure and recognition in financial statements of positions taken in a tax return about the treatment of transactions and events that more likely than not would not be sustained upon examination by tax authorities. Tax positions relative to a not-for-profit organization include activities that may endanger its exempt purpose and status as an exempt organization. The Club believes it complies with all relevant tax laws and regulations and has no significant uncertain tax positions. Therefore, no liability for uncertain taxes has been recorded in the financial statements.

##### I. Subsequent Events

Management evaluated transactions and events occurring subsequent to December 31, 2017, and through May 30, 2018, the date the financial statements were available to be issued, to determine whether any events should be recognized or disclosed in these statements. There were no material transactions or events in the subsequent period requiring disclosure or recognition in the statements.

#### **2. Fair Value Measurements**

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### 2. Fair Value Measurements - Continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodology could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Club believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Club's assets at fair value as of December 31, 2017 and December 31, 2016.

#### Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
<b>Recurring measurements</b>				
Investments:				
Money market funds	\$ 2,099,280	--	--	2,099,280
Mutual and exchange traded funds				
Bond	3,112,500	--	--	3,112,500
Domestic equity	7,460,787	--	--	7,460,787
International equity	1,917,152	--	--	1,917,152
Common stock	297,330	--	--	297,330
U.S. Treasury securities	2,845,968	--	--	2,845,968
Corporate bonds	1,206,398	--	--	1,206,398
	<u>18,939,415</u>	<u>--</u>	<u>--</u>	<u>18,939,415</u>
Investment fund measured at net asset value (1)				<u>1,032,487</u>
Total investments				<u>\$ 19,971,902</u>
<b>Nonrecurring measurements</b>				
New capital campaign pledges receivable	\$ --	--	5,940,831	<u>5,940,831</u>

New capital campaign pledges receivable are measured at fair value as of December 31, 2017 and 2016 by discounting anticipated future cash flows using a 3.50% discount rate.

(1) In accordance with FASB ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to investments at fair value presented on the balance sheet.

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Continued

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**DECEMBER 31, 2017 AND 2016**

**2. Fair Value Measurements – Continued**

Assets at Fair Value as of December 31, 2016

	Level 1	Level 2	Level 3	Total
<b>Recurring measurements</b>				
Investments:				
Money market funds	\$ 279,641	--	--	279,641
Mutual and exchange traded funds				
Bond	2,552,584	--	--	2,552,584
Domestic equity	6,729,600	--	--	6,729,600
International equity	1,141,834	--	--	1,141,834
Common stock	244,470	--	--	244,470
	<u>10,948,129</u>	<u>--</u>	<u>--</u>	<u>10,948,129</u>
Investment fund measured at net asset value (1)				<u>952,813</u>
Total investments				<u>\$ 11,900,942</u>
<b>Nonrecurring measurements</b>				
<u>New capital campaign pledges receivable</u>	<u>\$ --</u>	<u>--</u>	<u>3,237,611</u>	<u>3,237,611</u>

**Fair Value of Investments in Entities That Use Net Asset Value Per Share**

The investment fund's investment strategy is to allocate its assets among various investment strategies in an effort to generate long-term positive returns with a low correlation to equity markets. The following table summarizes investments measured at fair value based on net asset value per share:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<i>December 31, 2017</i>				
Investment fund	\$ 1,032,487	n/a	Annually	120 days
<i>December 31, 2016</i>				
Investment fund	\$ 952,813	n/a	Annually	120 days

Continued

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### 3. Capital Campaign Pledges Receivable

During 2016, the Club initiated a capital campaign with the goal of raising approximately \$25 million to provide for the opening of three new club sites, renovation of a current club, and upkeep on existing facilities. The Club has received unconditional promises to give (pledges) for the campaign. The Club considers the pledges to be fully collectible and an allowance is unnecessary. A discount rate of 3.50%, the risk free rate of return at the time of the pledges, was used to determine present value. Capital campaign pledges receivable recognized for promises to give include the following:

Less than one year	\$ 2,847,831
One to five years	6,583,554
	<u>9,431,385</u>
Less discount to present value	658,530
<b>Net capital campaign pledges receivable</b>	<b><u>\$ 8,772,855</u></b>

#### 4. Conditional Promises to Give

The Club received conditional promises to give during 2017 for \$3,500,000. The contributions are conditioned upon completion of the Florence Elementary, Millard Middle and Bryan Middle Clubs, and renovation of the Westbrook Club. No payments were received in 2017. Revenue will be recognized when the conditions are met.

#### 5. Investments

	Cost	Net Unrealized		Fair Value
		Gain	Loss	
Money market funds	\$ 2,099,280	--	--	2,099,280
Mutual and exchange traded funds				
Bond	3,145,416	--	32,916	3,112,500
Domestic equity	5,954,387	1,506,400	--	7,460,787
International equity	1,668,560	248,592	--	1,917,152
Common stock	86,310	211,020	--	297,330
U.S. Treasury securities	2,844,668	1,300	--	2,845,968
Corporate bonds	1,211,456	--	5,058	1,206,398
Investment fund	900,000	132,487	--	1,032,487
<b>Balance at December 31, 2017</b>	<b>\$ 17,910,077</b>	<b>2,099,799</b>	<b>37,974</b>	<b>19,971,902</b>
<b>Balance at December 31, 2016</b>	<b>\$ 11,288,453</b>	<b>805,025</b>	<b>192,536</b>	<b>11,900,942</b>

Investment income includes the following:

	2017	2016
Net realized and unrealized gains	\$ 1,608,466	810,469
Interest and dividends	268,081	249,945
Trustee fees	(72,001)	(59,784)
<b>Total investment income</b>	<b>\$ 1,804,546</b>	<b>1,000,630</b>

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Continued



## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### **6. Land, Buildings and Equipment**

	<u>2017</u>	<u>2016</u>
Land	\$ 691,872	691,872
Land improvements	96,299	96,299
Buildings	13,328,249	13,328,249
Furniture and fixtures	1,451,654	1,297,409
Vehicles	369,409	359,657
Equipment	635,213	268,252
Pool	270,000	270,000
Construction in Progress	42,896	21,186
	<b>16,885,592</b>	<b>16,332,924</b>
Less accumulated depreciation	8,825,045	8,212,500
<b>Net land, buildings and equipment</b>	<b>\$ 8,060,547</b>	<b>8,120,424</b>

Depreciation expense was \$612,545 and \$602,005 as of December 31, 2017 and 2016, respectively.

#### **7. Intangible Assets**

During 2007, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$1,300,000 to OPS for construction of facilities at Mount View Elementary to be used by OPS and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by OPS, a portion of the original payment will be refunded. The cost of facility use is being amortized over the future expected term of the agreement, 50 years, based on repayment terms. Accumulated amortization was \$600,000 and \$550,000 as of December 31, 2017 and 2016, respectively.

In January 2009, the Club opened its Council Bluffs location at the Charles E. Lakin Human Services Campus (see Note 14). The Campus entities are required to participate in the cost of common property improvements. The Club's share of the common property improvements is \$665,000. The improvements are being amortized on a straight line basis over 15 years. Accumulated amortization was \$354,666 and \$302,944 at December 31, 2017 and 2016, respectively.

During 2016, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$1,925,000 to OPS for construction of facilities at Florence Elementary to be used by OPS and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by OPS, a portion of the original payment will be refunded. The cost of facility use will be amortized over the future expected term of the agreement, 50 years, based on repayment terms. The Club paid \$1,120,000 on the agreement in 2016 and the remaining \$805,000 will be paid in 2018. The facility is under construction thus there is no accumulated amortization as of December 31, 2017.

During 2017, the Club entered an agreement with the Millard School District (District) to provide up to approximately \$2,865,000 to the District for construction of facilities at Central Middle School to be used by the District and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by the District, a portion of the original payment will be refunded. In addition, the Club is responsible for certain construction management fees. The cost of facility use will be amortized over the future expected term of the agreement, 50 years, based on repayment terms. The Club paid \$1,012,500 on the agreement and construction management fees in 2017. The unpaid balance is due in three equal annual installments beginning one year after the date of substantial completion, which is expected to be July 31, 2018. The facility is under construction thus there is no accumulated amortization as of December 31, 2017.

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Continued

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**DECEMBER 31, 2017 AND 2016**

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**7. Intangible Assets – Continued**

Amortization costs related to these intangible assets over the next five years is expected to be as follows:

2018	\$	192,555
2019		319,722
2020		319,722
2021		319,722
2022		319,722
Thereafter		1,671,391
	\$	<u>3,142,834</u>

**8. Debt**

The Club has an unsecured \$600,000 revolving note payable with interest at the lenders national base rate, less 0.25%, but never less than 3.50%. The effective rate was 4.25% as of December 31, 2017. The agreement matures May 31, 2018. There was no outstanding balance at December 31, 2017 or 2016.

**9. Net Assets**

**A. Temporarily Restricted**

	<u>2017</u>	<u>2016</u>
Purpose		
Scholarships	\$ 4,689,431	4,106,216
Scholarship administration	1,003,591	991,058
Acquisition of property and equipment	14,969,667	3,081,742
Council Bluffs club	1,462,505	1,345,919
Other	132,491	132,097
Time		
United Way	357,600	357,600
<b>Total temporarily restricted net assets</b>	<b>\$ 22,615,285</b>	<b>10,014,632</b>

The following temporary restrictions were satisfied:

	<u>2017</u>	<u>2016</u>
Program or time	\$ 1,046,533	1,037,880
Acquisition of property and equipment	1,198,219	1,709,775
	<b>\$ 2,244,752</b>	<b>2,747,655</b>

**B. Permanently Restricted**

Permanently restricted net assets consist of two endowments of which restrictions stipulate the resources be retained permanently. Both of the endowments permit the Club to expend part or all of the income (or other economic benefits) for general operating purposes.

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Continued

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**DECEMBER 31, 2017 AND 2016**

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**10. Endowments**

**Interpretation of Relevant Law**

The Board of Directors of the Club has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with NUPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

**Endowment Net Asset Composition by Type of Fund**

	<b>December 31, 2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ --	7,474,775	506,450	7,981,225
Board-designated endowment funds	5,972,343	--	--	5,972,343
<b>Total funds</b>	<b>\$ 5,972,343</b>	<b>7,474,775</b>	<b>506,450</b>	<b>13,953,568</b>

  

	<b>December 31, 2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ --	6,740,068	506,450	7,246,518
Board-designated endowment funds	4,654,424	--	--	4,654,424
<b>Total funds</b>	<b>\$ 4,654,424</b>	<b>6,740,068</b>	<b>506,450</b>	<b>11,900,942</b>

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Continued

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**DECEMBER 31, 2017 AND 2016**

**10. Endowments – Continued**

**Changes in Endowment Net Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, December 31, 2015</b>	<b>\$ 4,492,721</b>	<b>2,416,784</b>	<b>506,450</b>	<b>7,415,955</b>
Investment return:				
Net investment income	83,535	105,836	--	189,371
Net realized and unrealized gain	309,131	448,607	--	757,738
Total investment return	392,666	554,443	--	947,109
Contributions	--	4,065,314	--	4,065,314
Appropriation of endowment assets for expenditure	(230,963)	(296,473)	--	(527,436)
<b>Endowment net assets, December 31, 2016</b>	<b>\$ 4,654,424</b>	<b>6,740,068</b>	<b>506,450</b>	<b>11,900,942</b>
Investment return:				
Net investment income	87,136	119,389	--	206,525
Net realized and unrealized gain	744,018	871,837	--	1,615,855
Total investment return	831,154	991,226	--	1,822,380
Contributions	762,265	74,850	--	837,115
Appropriation of endowment assets for expenditure	(275,500)	(331,369)	--	(606,869)
<b>Endowment net assets, December 31, 2017</b>	<b>\$ 5,972,343</b>	<b>7,474,775</b>	<b>506,450</b>	<b>13,953,568</b>

**Strategies Employed for Achieving Objectives**

The Club protects assets and preserves purchasing power by earning a total rate of return for each category of funds appropriate to each category's time horizon, liquidity needs and risk tolerance. Funds designated as reserves have objectives that emphasize safety, liquidity and yield. Funds with a long-term horizon are managed with a long-term total return objective, which will build value at a rate of the Consumer Price Index plus 3%-5% depending on the asset mix of the portfolio. Assets committed to equity securities are maintained at approximately 60% of total assets, with the remaining 40% committed to fixed income securities. The Club allows for a 10% plus or minus variance with these percentages.

**Spending Policy and How the Investment Objectives Relate to Spending Guidelines**

The Club sets an annual distribution rate up to 5% each year, to be determined through consultation between the Finance Committee and the administration of the Club. The spending rate will take into account the historic returns and forecasted economic conditions.

Continued

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### **10. Endowments – Continued**

##### **Return Objectives and Risk Parameters**

The Club has adopted investment and spending guidelines for endowment assets that attempt to preserve the principal and purchasing power of the endowment fund. Under these guidelines, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a return on investment consistent with the spending policy and sufficient to increase the long-term value of the fund net of inflation. The Club's investment goal of the endowment fund is to maintain a rate of return at least equal to the distribution rate plus a rate of return that varies depending on the type of investment. Actual returns in any given year may vary from this amount.

##### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NUPMIFA requires the Club to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and appropriation for programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of December 31, 2017.

#### **11. Retirement Plans**

Employees who have completed one year of service are eligible to participate in a defined contribution plan. Eligible employees may make elective contributions to the plan. The Club made discretionary contributions in 2017 and 2016 based on 5% of participant compensation. The Club also made mandatory matching contributions on employee deferrals up to 5% of compensation. Contributions made by the Club are fully vested after six years. Retirement plan cost was \$240,046 and \$208,126 for 2017 and 2016, respectively.

#### **12. Concentrations**

The Club participates in federal and non-federal grant programs that are subject to review and audit by the grantor. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Club.

The Club receives an annual award from the United Way. Notification of its award for July 2016 through June 2018 was received in June 2016. Subsequent funding is at the discretion of the United Way and is dependent on the United Way meeting its funding goals.

The Club has capital campaign contributions of \$5,000,000 from three donors. In addition, related pledges receivable include \$5,250,000 due from three donors.

The Club regularly maintains cash balances in excess of FDIC limits.

#### **13. Related Party Transactions**

The Club has various service agreements with entities controlled by members of the Board of Directors. These agreements were entered into prior to the members' election to the Board or with complete disclosure of the relationship to the Board. In addition, revenues received from members of the Board of Directors are reflected in the statement of activities.

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Continued

## BOYS AND GIRLS CLUBS OF THE MIDLANDS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 2017 AND 2016**

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#### **14. Charles E. Lakin Human Services Campus**

The Club and four other local not-for-profit entities are party to a cooperative agreement related to the construction and operation of the Charles E. Lakin Human Services Campus in Council Bluffs, Iowa. The Campus offers various services for low-income individuals, including housing, emergency assistance, shelter, parenting classes and afterschool activities. The agreement governs fund-raising, development and operations related to the Campus. A separate not-for-profit entity, Legacy Family Campus, Inc., holds title to the common Campus real property. Each agency is required to share in associated maintenance costs. The expenses incurred are paid through endowment fund earnings held by the Charles E. Lakin Campus Foundation. If costs exceed the earnings, assessments for the remaining costs are provided to each agency for payment. Each entity owns its respective buildings and the land upon which they are constructed.

#### **15. Capital Lease Obligations**

The Club leases office equipment under capital leases. The equipment and obligations are recorded at the present value of the minimum lease payments. The equipment is amortized over their estimated productive lives.

The following is a summary of equipment under capital leases:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 635,213	268,252
<u>Accumulated amortization</u>	<u>(300,041)</u>	<u>(241,427)</u>
	<b><u>\$ 335,172</u></b>	<b><u>26,825</u></b>

Minimum future payments under the capital leases are as follows:

	<u>Amount</u>
2018	\$ 91,385
2019	91,385
2020	91,385
2021	76,592
2022	31,338
	<b><u>\$ 382,085</u></b>
<u>Amount representing interest</u>	<u>(33,924)</u>
<b><u>Present value of net minimum lease payments</u></b>	<b><u>\$ 348,161</u></b>

#### **16. Recently Issued Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 *Not-For-Profit Entities (Topic 958)*. This standard is part of a project to improve net asset classification and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The standard will require net assets and changes in net assets on the face of the financial statements be presented in two classifications – *net assets with donor restrictions* and *net assets without donor restrictions*. The standard also requires additional disclosures in several areas including composition of net assets with donor restrictions, qualitative information about liquidity and methods used to allocate costs among program and support functions. This standard is effective for the Club's fiscal year ending December 31, 2018 with earlier adoption permitted. Management has not completed or evaluated the impact of the adoption of this standard on our financial statements.

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**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED DECEMBER 31, 2017**

**FEDERAL GRANTOR**

*Pass-through Grantor*

Program Title

Federal  
CFDA #

Pass-through  
Entity  
Identifying #

Expenditures

**U.S. DEPARTMENT OF JUSTICE**

*Boys and Girls Clubs of America*

Juvenile Mentoring Program

16.726

OJP-2016-41108  
OJP-2016-41107  
OJP-2016-41106  
OJP-2016-41105

\$ 90,200

*City of Omaha*

Edward Byrne Memorial Justice Assistance  
Grant Program

16.738

2014-DJ-BX-0891  
2015-DJ-BX-0270

71,979

**Total U.S. Department of Justice, CFDA 16.726 & 16.738**

**\$ 162,179**

**U.S. DEPARTMENT OF AGRICULTURE**

*Nebraska Department of Education*

Child and Adult Care Food Program

10.558

2017IN109943  
2017IN202043  
2018IN109943  
2018IN202043

390,422

*Iowa Department of Education*

Child and Adult Care Food Program

10.558

None

101,579

**Total U.S. Department of Agriculture, CFDA 10.558**

**\$ 492,001**

**U.S. DEPARTMENT OF EDUCATION**

*Collective for Youth*

Twenty-First Century Community Learning Centers

84.287

None

249,850

**Total U.S. Department of Education, CFDA 84.287**

**\$ 249,850**

**Total Federal Awards expended**

**\$ 904,030**

**Note to Schedule of Federal Awards**

The above Schedule of Expenditures of Federal Awards includes the Federal grant activity of Boys and Girls Clubs of the Midlands (the Club) and is presented on the accrual basis of accounting. This information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Club did not elect to use the 10% de minimis indirect cost rate.

The Club did not pass through any funds from federal awards to subrecipients.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Boys and Girls Clubs of the Midlands  
Omaha, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Boys and Girls Clubs of the Midlands (the Club), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Club's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Club's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FRANKEL ZACHARIA LLC

May 30, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors  
Boys and Girls Clubs of the Midlands  
Omaha, Nebraska

**Report on Compliance for Each Major Federal Program**

We have audited Boys and Girls Clubs of the Midlands' (the Club) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Club's major federal program for the year ended December 31, 2017. The Club's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Club's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Club's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Club's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Club complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

## Report on Internal Control Over Compliance

Management of the Club is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Club's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FRANKEL ZACHARIA LLC

May 30, 2018

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED DECEMBER 31, 2017**

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**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)?	No

Identification of major programs

<u>CFDA Number</u> 10.558	<u>Name of Federal Program or Cluster</u> Child and Adult Care Food Program
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee:	Yes

**BOYS AND GIRLS CLUBS OF THE MIDLANDS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**YEAR ENDED DECEMBER 31, 2017**

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**Section II – Financial Statement Findings**

No matters reported

**Section III – Federal Awards Findings and Questioned Costs**

No matters reported

**Section IV – Summary Schedule of Prior Audit Findings**

2016-001 Preparation of Financial Statements

*Criteria:* Internal control procedures should provide reasonable assurance of the Club's ability to report financial data reliably in accordance with accounting principles generally accepted in the United States of America (GAAP).

*Condition:* Club management does not prepare financial statements and supplementary schedules in accordance with GAAP.

*Cause:* Management has determined it is not cost-beneficial to create a system of internal control that would allow the Club to prepare its own financial statements in accordance with GAAP.

*Effect:* The Club cannot, on its own, comply with regulatory requirements to prepare annual financial statements in accordance with GAAP requirements.

*Response:* Management agrees with the finding. However, they do not consider it cost-beneficial to implement a system of internal control to allow them to prepare their own financial statements. Corrective action plan is not considered necessary as management evaluates the cost benefit on an annual basis and no further action is required at this time.

**Current year status** – This finding is no longer applicable at December 31, 2017, as management has taken appropriate actions to remove the finding.